# Message Text

CONFIDENTIAL

PAGE 01 STATE 062956

51
ORIGIN EB-03

INFO OCT-01 ISO-00 /004 R

66604
DRAFTED BY EB:NLPAZDRAL:DA
APPROVED BY EB:JLKATZ, ACTING
--------------------- 019997
O 201639Z MAR 75
FM SECSTATE WASHDC
TO AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L STATE 062956

PLEASE PASS ASSISTANT SECRETARY ENDERS

FOLLOWING SENT SECSTATE WASHDC INFO LONDON THE HAGUE FROM LAGOS 19 MAR 75:

QUOTE C O N F I D E N T I A L LAGOS 2586

E.O. 11652: GDS
TAGS: ENRG, NI
SUBJECT: EFFECTS OF NIGERIAN DEMANDS ON OIL COMPANIES

REFS: LAGOS 2457 AND 2516

1. PRODUCING COMPANIES' CLAIMS THAT NEW ROYALTY AND TAX TERMS BEING DEMANDED BY NIGERIAN GOVERNMENT WOULD LEAVE THEM WITH MARGINS FROM ZERO TO 16 CENTS PER BARREL AND CHANGE THEIR PROFIT SPLIT WITH GOVERNMENT FROM APPROXIMATELY 95/5 TO 99/1 ARE SUBSTANTIATED BY EMBASSY CALCULATIONS. THE DIFFERENCE BETWEEN RELATIVELY HIGH MARGINS OF SHELL-BP (16 CENTS) AND ELF (14 CENTS) AND THE LOW MARGINS OF GULF (10 CENTS), MOBIL (6 CENTS), AND AGIP/PHILLIPS (ZERO) IS MORE A FUNCTION OF GRAVITY THAN PRODUCTION COSTS. REVISION OF THE SYSTEM OF GRAVITY DIFFERENTIALS COULD REDUCE THE DIFFERENCES AMONG COMPANIES, BUT INCREASED PRODUCTION COSTS MEAN THAT ALL COMPANIES WOULD STILL FACE A DECREASING SHARE OF THE PROFITS UNLESS THE FMG AGREES TO REDUCE GOVERNMENT TAKE. ACCORDING TO THE COMPANIES,
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 062956

PRESENT FREIGHT AND QUALITY DIFFERENCES BETWEEN NIGERIAN LIGHT

AND MARKER CRUDE WOULD TURN EVEN THESE SMALL PROFITS INTO ACTUAL LOSSES.

2. FOLLOWING TABLE ILLUSTRATES EFFECT OF GRAVITY AND PRODUCTION COSTS ON COST OF CRUDE OIL PRODUCED BY EACH OF THE FIVE COMPANIES UNDER TAX AND ROYALTY BEING DEMANDED BY FMG:

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|---|
| SHELL-BP | 32 | -.030 | 11.759 | .60# | 10.993 | .157 | 98.6 |
| ELF | 25 | -.135 | 11.645 | 1.40# | 10.106 | .139 | 98.6 |
| GULF | 34 | 0 | 11.789 | 1.22 | 10.455 | .105 | 99.0 |
| MOBIL | 37 | PLUS .045 | 11.825 | 1.08 | 10.682 | .063 | 99.4 |
| AGIP/PHILLIPS | 40 | PLUS .090 | 11.870 | 1.36 | 10.517 | -.007 | 100.1 |
| REAL AVERAGE | 34 | 0 | 11.780 | .80# | 10.847 | .133 | 98.8 |
| AV. USED BY FMG | 34 | 0 | 11.780 | .40 | 11.220 | .160 | 98.6 |

COLUMN (1) OF TABLE IS AVERAGE GRAVITY IN DEGREES A.P.I., COLUMN (2) GRAVITY DIFFERENTIAL AT 1.5 CENTS PER DEGREE A.P.I., COLUMN 2;(3) GOVERNMENT SALE PRICE FOR BUY-BACK AND DIRECT SALE OIL IN US DOLLARS PER BARREL ADJUSTED FOR GRAVITY, COLUMN (4) TECHNICAL PRODUCTION COSTS FORECAST FOR CY 1975, COLUMN (5) WEIGHTED AVERAGE GOVERNMENT TAKE, COLUMN (6) COMPANY MARTIN, AND COLUMN (7) GOVERNMENT TAKE AS PERCENT OF TOTAL PROFIT. PROPOSED GOVERNMENT SALE PRICE ($11.78) PER BARREL) PLUS GRAVITY DIFFERENTIAL (2) EQUALS ADJUSTED SALE PRICE OR SO-CALLED MARKET PRICE (3). THIS IS ALLOCATED TO PRODUCTION COSTS (4), GOVERNMENT TAKE (5), AND COMPANY MARGIN (6). CROSSHATCH (#) INDICATES ESTIMATE; OTHER COSTS PROVIDED CONFIDENTIALLY BY COMPANIES, NOT NECESSARILY BY COMPANY CONCERNED.

3. FOREGOING TABLE CALCULATES COMPANY MARGIN (COLUMN 6) AS DIFFERENCE BETWEEN PROPOSED GOVERNMENT SALE PRICE ADJUSTED FOR GRAVITY (COLUMN 3) AND WEIGHTED AVERAGE COST OF EACH COMPANY'S TOTAL PRODUCTION (SHOWN BELOW). ACCORDING TO THE COMPANIES, PROPOSED GOVERNMENT SALE PRICE IS UNREALISTICALLY HIGH. COMBINING MANY FACTORS (INCLUDING ITS OWN PRODUCT MIX), MOBIL OIL COMPANY CALCULATES THAT TERM MARKET FOR ITS 37-DEGREE NIGERIAN CRUDE IS $11.59 PER BARREL, I.E. $10.46 FOR MARKER CRUDE PLUS $.55 FRIEHGT ADVANTAGE AND $.58 QUALITY ADVANTAGE.
CONFIDENTIAL



USING THIS AS GUIDE AND ASSUMING (AS MOBIL DOES) A GRAVITY DIFFERENTIAL OF $.03 PER DEGREE, FOLLOWING TABLE ILLUSTRATES MAGNITUDE OF LOSSES PRODUCING COMPANIES MIGHT FACE IF TERMS BEING DEMANDED BY FMG ARE ACTUALLY IMPLEMENTED:

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| SHELL-BP | 32 | 11.44 | 11.593 | -.153 |
| ELF | 25 | 11.23 | 11.506 | -.276 |

| | | | | |
|---|---|---|---|---|
| GULF | 34 | 11.50 | 11.675 | -.175 |
| MOBIL | 37 | 11.59 | 11.762 | -.172 |
| AGIP/PHILLIPS | 40 | 11.68 | 11.877 | -.197 |

COLUMN (1) OF TABLE IS AVERAGE GRAVITY IN DEGREES A.P.I., COLUMN (2) ESTIMATED TERM MARKET PRICE ADJUSTED FOR GRAVITY, COLUMN (3) WEIGHTED AVERAGE COST OF ALL OIL PRODUCED IN NIGERIA BY GIVEN COMPANY, AND COLUMN (4) ANTICIPATED LOSS (2-3). CROSBY UNQUOTE INGERSOLL

CONFIDENTIAL

NNN

# Message Attributes

**Automatic Decaptioning:** X
**Capture Date:** 01 JAN 1994
**Channel Indicators:** n/a
**Current Classification:** UNCLASSIFIED
**Concepts:** PETROLEUM INDUSTRY, ROYALTIES, PRICES, TAXES
**Control Number:** n/a
**Copy:** SINGLE
**Draft Date:** 20 MAR 1975
**Decaption Date:** 01 JAN 1960
**Decaption Note:**
**Disposition Action:** RELEASED
**Disposition Approved on Date:**
**Disposition Authority:** buchantr
**Disposition Case Number:** n/a
**Disposition Comment:** 25 YEAR REVIEW
**Disposition Date:** 28 MAY 2004
**Disposition Event:**
**Disposition History:** n/a
**Disposition Reason:**
**Disposition Remarks:**
**Document Number:** 1975STATE062956
**Document Source:** CORE
**Document Unique ID:** 00
**Drafter:** NLPAZDRAL:DA
**Enclosure:** n/a
**Executive Order:** GS
**Errors:** N/A
**Film Number:** D750097-0988
**From:** STATE
**Handling Restrictions:** n/a
**Image Path:**
**ISecure:** 1
**Legacy Key:** link1975/newtext/t19750331/aaaabbur.tel
**Line Count:** 124
**Locator:** TEXT ON-LINE, ON MICROFILM
**Office:** ORIGIN EB
**Original Classification:** CONFIDENTIAL
**Original Handling Restrictions:** n/a
**Original Previous Classification:** n/a
**Original Previous Handling Restrictions:** n/a
**Page Count:** 3
**Previous Channel Indicators:** n/a
**Previous Classification:** CONFIDENTIAL
**Previous Handling Restrictions:** n/a
**Reference:** 75 LAGOS 2457, 75 AND 2516
**Review Action:** RELEASED, APPROVED
**Review Authority:** buchantr
**Review Comment:** n/a
**Review Content Flags:**
**Review Date:** 14 MAY 2003
**Review Event:**
**Review Exemptions:** n/a
**Review History:** RELEASED <14 MAY 2003 by ElyME>; APPROVED <08 OCT 2003 by buchantr>
**Review Markings:**

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

**Review Media Identifier:**
**Review Referrals:** n/a
**Review Release Date:** n/a
**Review Release Event:** n/a
**Review Transfer Date:**
**Review Withdrawn Fields:** n/a
**Secure:** OPEN
**Status:** NATIVE
**Subject:** EFFECTS OF NIGERIAN DEMANDS ON OIL COMPANIES
**TAGS:** ENRG, NI, US
**To:** PARIS
**Type:** TE
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006